CONFIDENTIAL FILE

# GRAY DRUG STORES, INC.

## ANNUAL REPORT TO SHAREHOLDERS . . .

## FOR THE YEAR ENDED JUNE 30, 1954

# GRAY DRUG STORES, INC.

MAIN OFFICE AND WAREHOUSE • 2400 SUPERIOR AVENUE
LABORATORY • 1701 CRAWFORD ROAD
CLEVELAND, OHIO

## BOARD OF DIRECTORS

CARLYLE W. EVANS....Executive Vice-President, Gray Drug Stores, Inc.
HENRY H. GRAY.....Vice-President, Gray Drug Stores, Inc.
CHARLES B. MERRILL.....President, Merrill, Turben & Co.
GEORGE F. PRYOR.....Vice-President, The Cleveland Trust Company
JOHN W. REAVIS.....Partner, Jones, Day, Cockley and Reavis
ADOLPH WEINBERGER.....President, Gray Drug Stores, Inc.

## OFFICERS

ADOLPH WEINBERGER.....President
CARLYLE W. EVANS.....Executive Vice-President
HENRY H. GRAY.....Vice-President
MILTON M. NEUBAUER.....Vice-President
LLOYD C. DOUGLASS.....Treasurer
LOUIS BERWITT.....Secretary
JOSEPH VALINS.....Assistant Secretary

## TRANSFER AGENT AND REGISTRAR

THE CLEVELAND TRUST COMPANY.....Cleveland, Ohio

## AUDITORS

ERNST & ERNST.....Cleveland, Ohio

## COUNSEL

JONES, DAY, COCKLEY and REAVIS.....Cleveland, Ohio

# REPORT TO STOCKHOLDERS

Cleveland, Ohio
September 15, 1954

To our Stockholders:

The results of your Company's operations for the fiscal year ended June 30, 1954, are presented in this report.

Net sales of $22,578,421 were again the highest in the Company's history, resulting in an increase of 7.13% when compared to the fiscal year ended June 30, 1953 when net sales were $21,075,426. Net income for the year, after deducting all charges including taxes, was $407,643, or $2.85 a share of Common Stock, as compared with $2.32 a share for the preceding year, an increase of approximately 22.84%. Net profit before taxes was $875,643, or 3.88% of net sales, as compared with $713,203, or 3.38% of net sales.

During the past year six new stores were opened in Ohio: two in Columbus, and one each in Fairview Park (suburb of Cleveland), Sheffield Village (between Elyria and Lorain), Barberton and Massillon. Four small stores, one each in Akron, Youngstown, Columbus and Cleveland, were disposed of. Modernization work was performed in six stores. At the end of this fiscal year, we have eighty stores in operation, two more than a year ago. Following our program of the last several years, we have opened all of our new stores in shopping centers and have equipped them with air-conditioning and modern, self-service fixtures. For the fiscal year ending June 30, 1955, our plans call for the opening of five new stores and the modernization of six more. On subsequent pages of this report are printed some views of the new stores opened in Columbus, Fairview Park, Barberton, Massillon and Sheffield Township.

I wish to extend my sincere appreciation to our employees, stockholders and directors for their interest and cooperation. It is through their efforts that the satisfactory results of your Company's operations for the year were made possible. To our customers and suppliers I acknowledge a debt of gratitude for their continued loyalty.

Respectfully submitted,

Adolph Weinberger

President

# TWENTY SIX YEAR RECORD of PROGRESS

| Fiscal | Stores End of Year | Net Sales | Net Income (3) | Earnings Per Common Share (4) | Dividends Paid per Share |
|---|---|---|---|---|---|
| 1929 | 17 | $ 1,531,636 | $120,107 | $4.00 | $1.67 |
| 1930 | 21 | 2,136,818 | 88,655 | 1.22 | 1.00 |
| 1931 | 24 | 2,604,609 | 100,482 | 1.33 | 1.00 |
| 1932 | 26 | 2,547,357 | 87,893 | 1.16 | 1.00 |
| 1933 | 26 | 2,498,932 | 80,382 | 1.06 | 1.00 |
| 1934 | 29 | 3,201,663 | 112,408 | 1.49 | 1.00 |
| 1935 (1) | 29 | 1,790,809 | 57,587 | .76 | .50 |
| 1936 | 33 | 4,406,753 | 163,774 | 2.05 | 1.05 |
| 1937 | 37 | 5,384,723 | 243,088 | 3.04 | 1.90 |
| 1938 | 38 | 5,374,763 | 132,821 | 1.66 | 1.60 |
| 1939 | 38 | 5,154,803 | 113,863 | 1.42 | .50 |
| 1940 | 40 | 5,509,435 | 139,430 | 1.74 | .75 |
| 1941 | 39 | 6,925,221 | 172,476 | 1.92 | 1.00 |
| 1942 | 44 | 7,965,870 | 176,651 | 1.96 | .75 |
| 1943 | 43 | 9,135,763 | 193,896 | 2.15 | .50 |
| 1944 | 43 | 9,469,467 | 172,278 | 1.91 | .75 |
| 1945 | 78 | 10,003,588 | 175,407 | 1.78 | 1.00 |
| 1946 | 91 | 14,700,500 | 366,910 | 2.47 | 1.65 |
| 1947 | 91 | 17,496,500 | 388,284 | 2.80 | 1.30 |
| 1948 | 78 | 16,227,105 (2) | 293,263 | 2.11 | 1.30 |
| 1949 | 79 | 15,643,806 | 241,014 | 1.74 | 1.05 |
| 1950 | 77 | 15,283,817 | 281,994 | 2.03 | .80 |
| 1951 | 74 | 16,833,818 | 324,702 | 2.32 | .80 |
| 1952 | 80 | 19,268,081 | 250,767 | 1.78 | 1.00 |
| 1953 | 78 | 21,075,426 | 327,898 | 2.32 | 1.00 |
| 1954 | 80 | 22,578,421 | 407,643 | 2.85 | 1.00 |

(1) Six months ended June 30, 1935. Changed fiscal year from calendar year to one ending June 30.

(2) In addition to the drop in sales resulting from the sale of thirteen stores, at the beginning of this year state cigarette excise taxes are excluded from sales.

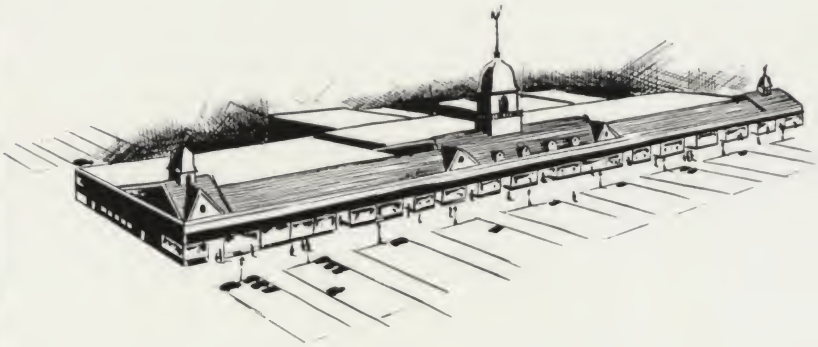
(3) Before reflecting reserves for contingencies which were restored to earnings retained in the business as of June 30, 1948.

(4) Based upon the number of shares outstanding at the end of each year.

## new GRAY'S supe

127 GRACELAND BLVD., COLUMBUS, OHIO

21000 CENTER RIDGE RD., FAIRVIEW PARK, OHIO



189 WOOSTER RD., BARBERTON, OHIO

266 FEDERAL ST., MASSILLON, OHIO

r stores

*in busy drive-in*
**SHOPPING CENTERS**

Here are exterior views of the six new stores opened by your company during the past fiscal year. All these units are located in large new "shopping centers"—developed to meet today's demand for fast, convenient, "one-stop" shopping.

As the trend to "shopping centers" continues to become more dominant in modern retailing, Gray Drug—with such large, air-conditioned, well-merchandised stores as these—maintains a prominent position among the progressive merchants who are building for tomorrow's sales in these centers. At present, about 50% of Grays' units are in "shopping center" locations.

141 O'NEIL SHEFFIELD SHOPPING CENTER

3409 CLEVELAND AVE., COLUMBUS, OHIO

# ADVERTISING

## NEWSPAPERS AND DIRECT-MAIL

Gray's consistent advertising in 19 different cities goes to over 1½ million newspaper-reading families, appears weekly in 24 newspapers. Millions of mail-delivered circulars help to create additional store traffic and stimulate greater sales.

## RADIO ADVERTISING

Top-rated radio time and talent brings Gray's story each day to hundreds of thousands in the Ohio radio audience. Gray's newscasts and spots are ever building sales and prestige.

## TELEVISION

Regular television shows in both Cleveland and Columbus deliver over a million program impressions per week in Northern Ohio. This powerful medium strengthens public relations as well as producing added sales.

# ACCOUNTANTS' REPORT

Board of Directors,
Gray Drug Stores, Inc.,
Cleveland, Ohio.

We have examined the consolidated balance sheet of Gray Drug Stores, Inc., and subsidiaries as of June 30, 1954, and the related statements of consolidated profit and loss, capital in excess of par value, and earnings retained for use in the business for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of profit and loss, capital in excess of par value, and earnings retained for use in the business present fairly the consolidated financial position of Gray Drug Stores, Inc., and subsidiaries at June 30, 1954, and the consolidated results of their operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ERNST & ERNST
Certified Public Accountants

Cleveland, Ohio
August 23, 1954

# CONSOLIDATED BALANCE SHEET



## ASSETS

| | | | |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash | | | $ 859,869 |
| Accounts receivable, less allowance of $10,000 | | | 113,764 |
| State tax stamps | | | 93,685 |
| Inventories—priced generally on the basis of the lower of cost (latest) or replacement market: | | | |
| At stores | | $2,819,207 | |
| At warehouse | | 1,096,679 | |
| At laboratory | | 23,062 | |
| | | $3,938,948 | |
| In transit | | 136,406 | 4,075,354 |
| **TOTAL CURRENT ASSETS** | | | **$5,142,672** |
| **OTHER ASSETS** | | | |
| Cash surrender value of life insurance | | $ 85,259 | |
| Notes receivable from sale of stores | | 50,343 | |
| Receivables for capital stock subscribed for by officers and employee | | 26,125 | |
| Miscellaneous receivables, deposits, etc. | | 25,959 | 187,686 |
| **FIXED ASSETS**—at cost, less allowance for depreciation and amortization | | | |
| Furniture and fixtures | $2,523,965 | | |
| Leasehold improvements | 1,514,343 | $4,038,308 | |
| Less allowances for depreciation and amortization | | 1,662,692 | 2,375,616 |
| **PATENTS AND TRADE-MARKS** | | | 1 |
| **DEFERRED CHARGES** | | | |
| Prepaid insurance, taxes, etc. | | | 140,776 |
| | | | **$7,846,751** |

# STORES, INC., AND SUBSIDIARIES, JUNE 30, 1954

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | | | |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Portion of long-term debt due within one year | | | $ 125,529 |
| Accounts payable and accrued expenses: | | | |
| Trade accounts and sundry accrued items | | $1,143,827 | |
| Salaries, wages, and commissions | | 298,373 | |
| Payroll taxes and taxes withheld from employees | | 76,576 | |
| Taxes (other than federal taxes on income) | | 110,393 | |
| Rent and interest | | 112,166 | 1,741,335 |
| Federal taxes on income—estimated | | | 542,138 |
| **TOTAL CURRENT LIABILITIES** | | | **$2,409,002** |
| **LONG-TERM DEBT** | | | |
| Note payable to insurance company—Note A | | $1,181,480 | |
| Less portion classified as current | | 125,529 | 1,055,951 |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock (par value $1.00 a share): | | | |
| Authorized 150,000 shares (2,350 shares subject to stock options granted to certain officers and key employees on October 18, 1950, at $10.75 a share) | | | |
| Outstanding—143,200 shares | $ 143,200 | | |
| Subscribed — 1,375 shares | 1,375 | $ 144,575 | |
| Capital in excess of par value | | 1,890,885 | |
| | | $2,035,460 | |
| Earnings retained for use in the business—Note A | | 2,346,338 | 4,381,798 |
| **CONTINGENT LIABILITY** | | | |
| On note receivable (from sale of store) sold to bank—$38,082 | | | |
| | | | **$7,846,751** |

See notes to financial statements.

# STATEMENT of CONSOLIDATED PROFIT and LOSS

## GRAY DRUG STORES, INC., AND SUBSIDIARIES
### Year ended June 30, 1954

| | | |
|---|---|---|
| **Net sales** | | **$22,578,421** |
| Cost of goods sold | | 14,039,234 |
| | | $ 8,539,187 |
| Other operating income | | 84,680 |
| | | $ 8,623,867 |
| Selling, general, and administrative expenses | | 7,720,637 |
| | | $ 903,230 |
| Other income | | 25,364 |
| | | $ 928,594 |
| Interest expense | | 52,951 |
| **PROFIT BEFORE FEDERAL TAXES ON INCOME** | | **$ 875,643** |
| Federal taxes on income—estimated: | | |
| Provision for the year (includes $47,800 for excess profits tax) | $ 528,000 | |
| Less adjustment of prior year's provision and refund ($44,994) arising from carry-back of unused excess profits credit | 60,000 | 468,000 |
| **NET PROFIT** | | **$ 407,643** |

See notes to financial statements.

# STATEMENT of CONSOLIDATED CAPITAL in EXCESS of PAR VALUE and EARNINGS RETAINED for USE in the BUSINESS

**GRAY DRUG STORES, INC., AND SUBSIDIARIES**
**Year ended June 30, 1954**

| | | |
|---|---|---|
| **CAPITAL IN EXCESS OF PAR VALUE** | | |
| Balance at July 1, 1953 | | $1,878,210 |
| Excess of option price over par value of 1,300 shares of capital stock sold during the year | | 12,675 |
| **BALANCE AT JUNE 30, 1954** | | **$1,890,885** |
| **EARNINGS RETAINED FOR USE IN THE BUSINESS** | | |
| Balance at July 1, 1953 | | $2,081,620 |
| Net profit for the year | | 407,643 |
| | | $2,489,263 |
| Cash dividends declared: | | |
| $.25 a share paid October 1, 1953 | $ 35,650 | |
| $.25 a share paid January 2, 1954 | 35,738 | |
| $.25 a share paid April 1, 1954 | 35,737 | |
| $.25 a share paid July 1, 1954—Note B | 35,800 | 142,925 |
| **BALANCE AT JUNE 30, 1954** | | **$2,346,338** |

See notes to financial statements.

# NOTES TO FINANCIAL STATEMENTS

**GRAY DRUG STORES, INC., AND SUBSIDIARIES**
**Year ended June 30, 1954**

NOTE A — The loan agreement provides for interest at the rate of 3-3/4 per cent per annum and for repayment in semiannual installments of $50,000 beginning not later than November 1, 1954. The Company also is required to make additional payments in each year to the extent of 20 per cent of the excess of consolidated net profit for the preceding year over $280,000 ($25,529 will be due on November 1, 1954, under such requirement); however, the additional payment shall not exceed $100,000 in any year. The agreement includes, among other things, certain provisions relating to the maintenance of consolidated net current assets and certain restrictions on the payment of dividends. Accordingly, consolidated earnings retained for use in the business available for dividends amounted to $774,220 at June 30, 1954.

NOTE B — On June 29, 1954, the Company deposited funds with the dividend disbursing agent for payment of the dividend payable July 1, 1954.

NOTE C — At June 30, 1954, the companies were lessees under a number of leases extending from one to twenty-two years. The aggregate annual minimum rental payable (many of such leases provide for additional rental if amounts based on specific percentages of sales exceed the minimum) amounted to approximately $940,000.

NOTE D — Allowances for depreciation and amortization aggregated $383,368 for the year.

NOTE E — Total contributions under the pension plan for employees of the companies amounted to approximately $95,000 for the year ended June 30, 1954, including amortization of cost of past service benefits to retirement age of participants.

# GRAY DRUG STORES, INC.

OPERATING EIGHTY STORES
IN THE FOLLOWING CITIES:

## OHIO

| | | |
|---|---|---|
| Akron | East Cleveland | Painesville |
| Alliance | Euclid | Sandusky |
| Barberton | Fairview Park | Sheffield |
| Boardman | Fremont | Steubenville |
| Canton | Garfield Heights | Struthers |
| Cleveland | Lakewood | University Heights |
| Columbus | Mansfield | Warren |
| Cuyahoga Falls | Maple Heights | Wooster |
| Dayton | Massillon | Youngstown |

Bradford, Pennsylvania . Erie, Pennsylvania